

C. The Commission Should Consider Providing Support Direct to Schools and Libraries Instead of Discounting Carriers' Prices

Under the structure proposed by the Joint Board, a carrier provides service at rates that are discounted by 20-90% depending on the status of the school. That structure is developed in response to the statutory language that requires telecommunications carriers to provide service to schools and libraries at discounted rates.^{29/} As an alternative, carriers and other service providers could provide service to schools and libraries at undiscounted rates, and schools and libraries could apply to the universal service administrator for a rebate equal to 20-90% of the charges they paid to carriers and other service providers. In that way, the support is provided directly to the school or library in a manner that is economically equivalent to offering discounted prices. However, the Commission avoids becoming mired in setting and tracking the pre-discount and discounted prices, and avoids disputes about what types of firms are eligible for universal service subsidies.^{30/} A school or library would simply present the total charges for the services it purchased to the universal service fund administrator and receive a rebate for those charges equal to the appropriate discount amount. By having schools and libraries apply for a rebate, the Commission would better assure that the promotion of advanced services to schools, libraries and health care providers was

^{29/} 47 U.S.C. §254(h)(1)(B).

^{30/} For example, a local electrician might be able to install inside wiring for a school at a price lower than that offered by the area telecommunications companies. Yet because an electrician is not a telecommunications carrier, it is arguably ineligible for universal service support. Such an interpretation obviously frustrates the statutory intent to promote deployment of advanced services to schools and libraries and is not competitively neutral.

competitively neutral (as required by §254(h)(2)) and ensure that recipient schools and libraries satisfied the not-for-profit requirements of §254(h)(4).

IV. HIGH COST SUPPORT

A. Recommended Principles for Proxy Cost Models

MFS generally supports the Joint Board's recommendations that universal service support for companies that serve high-cost areas be based on a proxy cost calculation.^{31/} MFS also supports the Joint Board's conclusion that further study and analyses are required before an acceptable proxy cost model can be adopted.^{32/} MFS recommends that the Joint Board's criteria for an acceptable proxy cost be amended to include the following principles:

▶ ***Forward-Looking Proxy Costs Should not be Higher than the Incumbent***

Carrier's Embedded Costs. The Joint Board endorses use of forward looking costs on the basis that "[t]hose costs best approximate the costs that would be incurred by an efficient competitor entering that market."^{33/} In a competitive market, a competitor would not enter a market unless its incremental costs were lower than or equal to the incumbent carrier's costs. Thus, if proxy costs are intended to reflect the costs of an efficient market entrant, they can be no higher than the incumbent's embedded costs. In interconnection negotiations, however, some incumbent carriers have taken the

^{31/} Recommended Decision at ¶¶ 270-312.

^{32/} Recommended Decision at ¶¶ 268-269.

^{33/} Recommended Decision at ¶ 270.

position that forward-looking costs based on a "burnt-node" proxy cost model (*i.e.*, a model that develops loop costs based on the location of existing wire centers, but otherwise develops the costs of deploying the network) using the latest technology can yield costs that are higher than the incumbent carrier's embedded costs.^{34/} The Joint Board's Recommended Decision should be amended to require that proxy costs -- which are intended to reflect the costs of a competitive new market entrant -- can be no higher than the incumbent carrier's embedded costs.

- ▶ ***Proxy Cost Support Should not be Designed to Maintain the Incumbent Carrier's Revenues.*** The proxy cost models should be designed to provide an objective, reasonable basis for identifying high-cost service areas and quantifying the costs of providing service to that area largely independent of the incumbent carrier (subject to the embedded costs cap). High cost support should not be intended to maintain the incumbent carrier's revenues or profits.
- ▶ ***Carriers that Receive High-Cost Support Based on Forward-Looking Costs Should Actually Provide the Forward-Looking Technologies that form the Basis of Such Support.*** If carriers receive high-cost support that is based on forward-looking technologies and costs, then they ought to be required to provide such forward-looking technologies. It would be inappropriate, for example, if an incumbent carrier received high-cost support based on a forward-looking network design (*e.g.*, a

^{34/} The possibility that the costs of deploying new facilities may be higher than embedded costs was raised in a recent letter to the Commission signed by five of the Department of Justice's former chief economists (Bruce Owen, Lawrence White, Frederick Warren-Boulton, Robert Willig, Janusz Ordover) (Dec. 3, 1996).

network capable of high-speed, broadband transmission) but maintained a network that was incapable of delivering advanced services.^{35/}

- ▶ ***High-Cost Support Should Not Generate a Windfall for Incumbent Carriers.*** A proxy cost model is generally intended to identify high-cost service areas with greater granularity than existing high-cost mechanisms. Today, some incumbent carriers that serve high cost areas do so without drawing from high-cost funds, but serve both high- and low-cost areas with geographically averaged rates. Such carriers may not have local service rates in low-cost areas that are unreasonably high or penetration levels that suggest that extraordinary support is required. Absent a requirement that carriers explicitly reflect high-cost support on customers' bills, implementation of a proxy-cost based high-cost mechanism creates a risk that some carriers will receive high-cost support, and will simply keep the new-found high-cost support without making any sort of adjustment to rates. Such a result would not be competitively neutral and would merely be a windfall for carriers that have not needed high-cost support.
- ▶ ***Carriers Must Have the Flexibility to Geographically Deaverage Rates.*** As described above, any carrier that receives universal service support for serving high-cost areas should explicitly reflect that support on customers' bills. However, showing the cost-based price of service in high-cost areas requires that the carrier have the flexibility to geographically deaverage its prices. A carrier should also have the flexibility to charge a market rate that is lower than the cost-based price, but the rate paid by customers would be the price less the explicit high-cost subsidy. For example,

^{35/} See also the discussion in Section I. B., above.

if the statewide average rate in Colorado is \$20, but the costs of providing service in Telluride is \$50, US WEST should have the flexibility to geographically deaverage its prices and charge \$50 for service in Telluride. Or, US WEST should have the flexibility to continue to charge the geographically averaged rate of \$20 in Telluride. In either instance, if high-cost support is \$25, US WEST would receive only \$25 per line for the customers it actually served in Telluride, and would show a \$25 credit on its Telluride customers' bills.

- ▶ ***Proxy Cost Models Should Reflect Realistic Engineering Practices.*** MFS supports the Joint Board's recommendation that proxy cost models include the capability to examine and modify assumptions and engineering principles and allow for different costs of capital, depreciation, and expenses for differing facilities, functions or elements.^{36/} MFS also strongly recommends that proxy cost models reflect realistic loop engineering practices. Specifically, the proxy cost models should be designed to explicitly reflect a maximum length for copper loops, and should not force fiber optic facilities in the feeder plant when the total loop length is less than the maximum regardless of the length of the feeder.^{37/}

^{36/} Recommended Decision at ¶ 277.

^{37/} MFS understands that Benchmark 2 has "built in" a maximum copper loop length of 18,000 feet and that Hatfield 2.2 has no maximum length for copper loops. Both should be modified to permit a variable maximum copper loop length. Both models have a factor that forces fiber in the feeder after a specified loop length. Those factors should be modified to allow the option to deploy fiber only when the maximum copper total loop length is exceeded.

B. High-Cost Support Should be Based on Costs, Not Average Revenues

The Joint Board recommends that high cost support be based on the difference between a benchmark figure and the proxy costs for a specific area, such as the proxy costs for a specific census block. The Joint Board recommended that the benchmark be based on the national average revenues per line, where revenues include local service, discretionary and access services. The Joint Board recommended using a measure of total revenues per line as the benchmark in recognition that a loop supports a variety of services and generates a variety of revenues.^{38/}

MFS recommends that the benchmark be based on the national average proxy cost rather than national average revenues for at least three reasons. First, if national average revenues are used to establish the benchmark, competition will increase the high-cost fund rather than reduce it. As competition develops in all segments of the local exchange market, that will reduce prices and stimulate total volumes. As a consequence, the national average revenues and the national benchmark will decline. To the extent that competition reduces the national benchmark, that will increase total universal service support by making more areas eligible for high-cost support and expanding the difference between costs and the benchmark. As competition develops, one would expect that the universal service fund to shrink as more efficient firms enter the market and provide service at a lower cost. The Joint Board's recommendation to use national average revenues to establish the benchmark is contrary to this competitive dynamic.

^{38/} Recommended Decision at ¶¶ 309-317.

Second, using national average revenues raises administrative costs and churn among the included services. The Joint Board did not specify all of the services whose revenues should be included in the national benchmark, but recommended that the Commission periodically review which services should be included in the benchmark calculation.^{39/} As competition develops, the range of services that may use the local loop (and thus, generate revenues) should increase. If the Joint Board's recommendation is adopted, the Commission can expect to be forced to revisit and reevaluate the benchmark to keep up with competitive changes. In addition, to calculate the national average revenues, the Commission will be forced to gather and maintain product specific revenue and volume information from incumbent and new entrants. As competition develops, the Commission should seek mechanisms that reduce the need for regulatory agencies to gather and process information. The Joint Board's recommendation in this area is a step in the opposite direction.

Third, using national average revenues to establish the high-cost benchmark does not establish a benchmark cost. The purpose of calculating proxy costs is to identify areas that are inherently high-cost service areas, so the Commission ought to define a high-cost benchmark by reference to costs, not average revenues. National average revenues per line has nothing to do with the cost of providing service, but reflects prices that may be set to reflect social objectives (e.g., Lifeline rates) and/or set to recover a company's costs of service in both high and low costs areas. Local residential service rates, for a particular company for example, might be depressed in a rural area because: (1) business lines are inflated to provide a subsidy to residential service; (2) access charges are set at a level

^{39/} Recommended Decision at ¶310.

designed to provide contribution to local service; (3) the company receives interstate high-cost support; and, (4) urban rates are inflated to geographically average rates and thereby subsidize rural rates. It is not clear that the average revenues per line for such a company would be economically meaningful other than to provide an average of the agglomeration of pricing distortions that have developed in the telecommunications industry. A more straightforward means of establishing the benchmark cost is to calculate the average proxy cost over all the areas modeled by the selected proxy cost model. High-cost areas could be identified as areas with proxy costs greater than 130% of the national average proxy costs (or some other percentage selected by the Commission).

Finally, as suggested above, high cost support should be explicitly reflected on the bills of customers that receive service from carriers that would draw from the high-cost fund. Explicitly reflecting high-cost support eliminates the potential for double recovery of costs and honestly informs customers of the support they receive. It also allows carriers to set cost-based rates rather than artificially depressed rates that reflect rate averaging and social engineering rather than cost-causation and the marketplace. When fully operational, a carrier serving a high-cost area could charge a rate that reflects the costs of providing service to that area. A customer would receive a bill that shows a cost-based rate (or, a lower rate if the carrier decided for competitive reasons to charge a lower rate) less an explicit high-cost subsidy.

V. SUPPORT FOR LOW INCOME CONSUMERS

A. Subsidized Toll Restrictions and Disconnect for Non-Payment of Vertical Services Should be Limited to Low Income Customers

The Joint Board recommends that toll restriction services be offered to low income customers.^{40/} It also recommends that a carrier that receives universal service support for providing Lifeline services be prohibited from disconnecting such service for non-payment of toll charges.^{41/} The Joint Board further recommends adoption of a national policy prohibiting telecommunications carriers from requiring Lifeline subscribers to pay service deposits in initiating service if the customer voluntarily elects to receive toll blocking.^{42/}

MFS generally supports these recommends and the Joint Board's recommendations that these policies and programs be limited to low income subscribers. It would be inappropriate to extend such programs and subsidies to all subscribers. As a general rule, prohibiting disconnection of local service for non-payment of toll charges would encourage some customers to not pay for long distance services and simply switch to another long distance carrier when the bills became past due. The Joint Board's recommendation prohibiting disconnection for non-payment of toll services creates a potential for fraud by

^{40/} Recommended Decision at ¶¶ 385-386.

^{41/} Recommended Decision at ¶¶ 387-388. The Joint Board's Recommended Decision allows for a waiver of this restriction if the carrier establishes that: (1) it would incur substantial compliance costs; (2) it offers toll-limitation services to Lifeline customers at no charge; and, (3) telephone subscribership among low income consumers in the carrier's service area is at least as high as the national level for low income consumers.

^{42/} Recommended Decision at ¶ 389.

Lifeline customers. MFS recommends that the Joint Board's Recommended Decision be modified to prohibit disconnection for non-payment of toll charges if, after the toll charges become past due, the subscriber voluntarily elects to subscribe to toll blocking service and the customer and the long distance company agree either to develop an extended payment plan or to forgive the past due charges.

B. Low Income Support Should be De-Linked from Interstate Subscriber Line Charges

Lifeline support has traditionally been a function of the interstate subscriber line charge. Generally speaking, Lifeline support consists of waiving the otherwise applicable \$3.50 per month federal subscriber line charge. The Joint Board recommended that low income support be de-linked from the subscriber line charge, and federal support up to \$7 per month be provided to Lifeline customers.^{43/}

MFS recommends that universal service support for low income customers, specifically monthly Lifeline support, be de-linked from the level of the interstate subscriber line charge as recommended by the Joint Board. However, simply increasing Lifeline support creates a risk that the universal service fund will grow without attendant benefits for telephone subscribership. As many commentators observed, disconnections and low penetration rates among low income households may be due more to an inability to control vertical services and toll charges rather than the level of local service charges.^{44/} The empirical evidence presented

^{43/} Recommended Decision at ¶¶419-420.

^{44/} Recommended Decision at ¶¶ 359-394. In its review of universal service support
(continued...)

to the Joint Board by the Commission Staff certainly suggest that providing a larger Lifeline credit towards local service charges may have little impact on subscribership among low income customers. Thus, the Commission should increase Lifeline support only if there is unambiguous empirical evidence that such an increase will have an appreciable impact on low income subscribership.

The level of low income support should not, however, be tied to the federal subscriber line charge, which is a charge based on concepts that are largely foreign to this proceeding. The subscriber line charge is one of the elements originally designed to recover the interstate portion of incumbent local exchange carriers' nontraffic sensitive revenue requirements. Carrier common line charges paid by switched access customers were designed to recover the nontraffic sensitive revenue requirements that were not recovered by the \$3.50 subscriber

^{44/} (...continued)
mechanisms, the Commission Staff concluded that

The majority of those without telephone service once were subscribers. Of these nonsubscribers, the principal reason for nonsubscription is inability to pay toll charges. In a study of California communities with subscribership rates of less than 90 percent, 65 percent of the non-customers previously had received telephone service. This and similar studies suggest that the inability to control toll usage may be the main reason households are disconnected from the public switched network. Disconnection studies by the seven Regional Bell Holding Companies and GTE, done at the request of the Federal-State Joint Board, showed that most customers involuntarily disconnected were above average users of toll telephone service. For example, BellSouth found that involuntarily disconnected customers in low-income areas had toll charges that were on average twice as high as toll charges of current customers in those areas.

Common Carrier Bureau, *Preparation for Addressing Universal Service Issues: A Review of Current Interstate Support Mechanisms*, pp. 16-17 (Feb. 23, 1996).

line charge. Basing charges, like the subscriber line charge, on the interstate portion of revenue requirements is inconsistent with setting rates based on forward-looking economic costs. While the federal subscriber line charge may have merit as a charge that reflects cost-causation principles, it is certainly not a charge that in any way reflects the level of need of low income subscribers.

VI. SUPPORT FOR SCHOOLS AND LIBRARIES AND HEALTH CARE PROVIDERS

A. Universal Service Support for Inside Wiring and Items that are not Telecommunications Services are not Authorized by the Telecommunications Act

The Joint Board recommends including inside wiring among the subsidized services provided to schools and libraries.^{45/} Inside wiring is not a telecommunications service, and universal service support for schools, libraries and health care providers is clearly limited to support for telecommunications services. MFS agrees with the statement of Commissioner Chong regarding the limitations on what may be funded for schools, libraries and health care providers from universal service funds. There are significant policy implications of the Joint Board's classification of inside wiring as a "telecommunication service" eligible for universal service subsidies:

- ▶ **Size of the Fund.** The size of the universal service funds supported by telecommunications customers are greatly impacted by whether inside wiring is

^{45/} Recommended Decision at ¶¶ 458-465, 473-484. Internal connections are defined to include traditional inside wiring, routers, hubs, network file servers, and wireless LANs, but exclude personal computers

included or excluded. In her dissenting statement, Commissioner Chong cites non-recurring charges between \$5 and \$6 billion.^{46/} In broad terms, the Joint Board is proposing a "tax" on telecommunications services to subsidize \$2.25 billion of services provided to schools, libraries and health care providers. In very rough terms, that tax will be spread over 150 million lines and amount to about \$1.25 per line per month (\$2.25 billion divided by 150 million lines). In an era where Congress is vigorously debating tax reductions, it seems unreasonable to interpret universal service support for schools, libraries and health care providers as a mandate to increase telecommunications "taxes" by \$2.25 billion. At a minimum, the Commission should require that the support provided to schools, libraries and health care providers should be explicitly reflected on customers' bills.

- ▶ ***Inconsistencies with Other Inside Wiring Decisions.*** The Commission deregulated installation and maintenance of interstate inside wiring long ago. The Joint Board's classification of inside wiring as a telecommunications service eligible for a universal service discount effectively retariffs inside wiring and subjects those who install inside wiring to regulation. For example, if a school disputes the non-discounted charges for inside wiring, how would the Commission resolve the dispute except by mirroring itself in the price of inside wiring? In fact, this concern has more general application. Some building owners demand extraordinary charges for access to and use of inside wiring. If the Commission adopts the Joint Board's recommendation and defines installation

^{46/} Statement of Commissioner Chong at pg. 6.

and maintenance of inside wiring as a telecommunications service, the Commission logically should consider regulating all providers of such inside wiring.

- ▶ ***Inclusion of Inside Wiring Revenues in Telecommunications Revenues.*** The Joint Board reasoned that the installation and maintenance of inside wiring is a telecommunications service eligible for universal service support.^{47/} If installation and maintenance of inside wiring is a telecommunications service, then the Commission should insist on including the revenues of those who install and maintain inside wiring in the telecommunications revenues used to determine contributions for universal service support.

B. Competitors Should Have Access to Inside Wiring

If inside wiring is subsidized by universal service funds, competitors should have unrestricted access to that wiring. Firms that install inside wiring that is subsidized by universal service funds should not be permitted to restrict access to that subsidized wiring. For example, if Southwestern Bell installs inside wiring at a school and the installation of that wiring is subsidized by universal service funds, then Southwestern Bell should not be permitted to restrict use of the inside wiring by competitors or other firms that the school might select to provide any or all of its telecommunications services. The Joint Board's Recommended Decision should be clarified or modified to indicate that if inside wiring remains subsidized a condition of providing inside wiring that is subsidized by universal service funds

^{47/} Recommended Decision at ¶ 474.

is that such wiring be made available to any competitors the school or library might select to provide services that could use the subsidized inside wiring.

In some schools and libraries, inside wiring is already installed and the incumbent carrier charges for the use and/or maintenance of such wiring. In such instances, the owner of the inside wiring should not be allowed to prohibit competitors from using the inside wiring to provide subsidized services, and should provide the inside wiring at the tariffed rates less the applicable 20-90% discount. The owner should be allowed to recover the remainder of the tariffed charges from the universal service fund. Unless the Joint Board's Recommended Decision is modified to reflect these requirements, there is a substantial risk that the owners of existing inside wiring will use their control to restrict competitors' access to and use of inside wiring installed in schools and libraries and thereby restrict the competitively neutral deployment of advanced services to schools and libraries as required by §254(h)(2).

VII. INTERSTATE SUBSCRIBER LINE CHARGES AND CARRIER COMMON LINE CHARGES

A. Recovery of Carrier Common Line Charges Should be Determined in the Access Reform Docket

The Joint Board recognized that per minute carrier common line charges are an inefficient mechanism for recovering per line non-traffic sensitive costs. The Joint Board indicated that a promising alternative was to recover non-traffic sensitive costs on a per line rather than a per minute basis.^{48/}

^{48/} Recommended Decision at ¶¶ 775-776.

MFS agrees that reforming the structure of access charges is overdue and should be addressed. Because access charges are the largest single expense of a long distance carrier, and access charges are set at levels above the cost-based levels one would expect to persist in a competitive market, it is important that the Commission address access reform before the Bell Operating Companies enter the interLATA long distance market. Otherwise, long distance providers will be forced to compete with firms that control their largest single expense.

Plainly, carrier common line charges are not cost based charges and not the charges one would expect to persist in a competitive market. Because long distance traffic tends to grow faster than loops, carrier common line revenues have historically grown faster than non-traffic sensitive loops thereby generating a windfall for incumbent local exchange carriers. Further, it is not clear that carrier common line charges provide universal service support. Carrier common line charges are not targeted to providing service to high-cost exchanges nor are they targeted to providing service to low income customers or to schools, libraries or health care providers. MFS does not believe that reform of carrier common line charges is an issue that is properly addressed in this docket. Reform of carrier common line charges should be part of the comprehensive access reforms that the Commission has committed to undertake coincident with implementing the universal service policies in this proceeding.

Should the Commission decide to address carrier common line charges in this proceeding, MFS observes that allowing incumbent local exchange carriers to continue to recover carrier common line revenues on a flat-rate, per line charge suffers from several problems. First, apportioning carrier common line revenues among interexchange carriers

based on their presubscribed lines could be used to guarantee the incumbent carrier's revenues absent a mechanism to reduce non-traffic sensitive costs as the incumbent carrier loses customers to competitors. For example, if NYNEX receives \$250 million in carrier common line revenues and spreads those revenues among 10 million subscriber lines, it would recover \$25 per line. If, as a result of competition, NYNEX subsequently loses 1 million subscriber lines, it should not be allowed to recover its entire \$250 million of carrier common line revenues over the remaining 9 million lines.

Second, apportioning total carrier common line revenues for per line recovery assumes that the incumbent has an entitlement to recover these revenues irrespective of the proportion of non-traffic sensitive costs recovered by other rates, which is antithetical to competition and cost-based rates. Suppose, for example, an incumbent carrier increased its intrastate local service rates to recover 100% of loop costs. In that instance, it should not be allowed to recover the per line carrier common line charge in addition to its local service charges if the total is greater than the carrier's non-traffic sensitive costs.

Third, the non-traffic sensitive "costs" theoretically recovered by carrier common line charges and subscriber line charges are not economic costs at all, but rather, revenue requirements. Allowing recovery of non-traffic sensitive costs and providing universal service funds creates a potential for double recovery. Specifically, with regards to interstate carrier common line charges and the federal subscriber line charges, the non-traffic sensitive "costs" are the 25% of total revenue revenues associated with loop facilities that have been allocated to the interstate jurisdiction. In designing universal service support mechanisms, the Joint Board recommended developing high-cost support mechanisms based on the forward-looking

economic costs of providing network facilities in high-cost areas. That methodology is entirely inconsistent with allowing carriers to recover the interstate portion of non-traffic sensitive revenue requirements through a line-based apportionment of those revenue requirements. For example, if the proxy costs of providing service to a particular high-cost area is \$35 per line, and the national benchmark is \$25, carriers that serve customers in that high cost area would receive universal service funds of \$10. Since the \$35 per line theoretically represents the economic cost of placing plant to serve the high-cost area, assuming that revenue requirements correspond to a carrier's costs, it would be double recovery of costs to allow the serving carrier to recover its interstate non-traffic sensitive revenue requirements through a combination of subscriber line charges and carrier common line charges (either per minute or per line). Moreover, it is not clear what economic or policy rational, if any, could justify allowing a carrier to recover \$10 in universal service funds to cover the forward-looking costs of the loop in high cost areas and a per line carrier common line charge designed to cover a carrier's interstate non-traffic sensitive revenue requirements.

VIII. ADMINISTRATION

A. Nine-Digit Zip Codes Can be Used to Target Support to Low Income Households and High-Cost Service Areas

MFS continues to recommend that support be provided for low income customers and carriers that provide service to customers who live in high-cost service areas and generally supports the Joint Board's Recommended Decision in these areas. However, the practical problem remains as to how to target such support in a non-intrusive, administratively efficient

manner, how to ensure that supported households receive the appropriate support, how to ensure that a household does not receive universal service support for multiple services, and how to ensure that support is fully portable among competing providers. Nine-digit zip codes used for telephone billing addresses could provide a mechanism for targeting such support. The universal service administrator would maintain a database of nine-digit zip codes with fields that indicate whether the customer at that location is entitled to low income support, high-cost support, and whether a support payment has been generated for a particular month. Carriers seeking reimbursement for providing supported service (to low income customers or high-cost areas) would simply submit a list of nine-digit zip codes of potentially qualifying customers' nine-digit zip codes (or all of their customers' nine-digit zip codes) to the administrator, which would match the list against the master database to determine the appropriate payment owed to the carrier. Alternatively, the universal service administrator, using information from high-cost proxy models and income data from various social service agencies, could generate a listing -- by nine-digit zip code -- to provide to carriers to match against their billing records indicating the type of assistance appropriate for individual households. Carriers would then explicitly reflect any universal service support on the bills they render to customers.

Generally, nine-digit zip codes identify a small mail delivery "segment" which may be a single household, one floor in an office building or one side of a street between two cross-streets.^{49/} These zip codes (or some simple augmentation, such as the nine-digit zip code plus

^{49/} More specifically, nine-digit zip codes (XXXXX-XXXX, or Zip + 4) are organized as follows: (1) the first digit identifies one of 9 national zip code areas; (2) the second digit (continued...)

an extra digit or letter) could be used by the universal service administrator to keep track of which households are eligible for low income assistance and which locations are eligible for high-cost assistance. By using nine-digit zip codes as the identifiers for supported customers, the Commission can assure that a single household (as defined as the residence at the nine-digit zip code) does not receive support for multiple lines or services. Without such a unique household identifier, the Commission will have to develop a mechanism to prevent households from receiving low income or high-cost support for multiple services, lines or carriers.

MFS recommends that support be based on the characteristics of the nine-digit zip code on a customer's billing address. In doing so, the Commission minimizes the problems associated with providing high-cost support to high-income individuals who maintain a recreational residence in resort areas. For example, it seems inappropriate to provide high-cost assistance to individuals who have a condominium in Vail that they use two or three months of the year. In many cases, an individual with multiple residences would have a single billing address, and thus, would receive high-cost assistance only if he lived (and thus was billed at) a high-cost location.

Using a nine-digit zip code as the basis for support eliminates the need for a potentially intrusive mechanism where customers must report their income to their telephone company or

^{49/}

(...continued)

identifies a state within the area; (3) the third digit identifies areas within a state; (4) the fourth and fifth digits identifies the local delivery area within the areas; (5) the sixth and seventh digits identify a sector, which may be several blocks, a group of streets, high-rise building or small geographic area; and, (6) the last two digits identify a segment within the sector.

otherwise demonstrate that they qualify for low income support. For example, the Commission could decide that all customers who receive food stamps are eligible for low-income support as was suggested by the Joint Board.^{50/} Social service agencies that administer food stamps, for example, would simply provide the universal service administrator with a list of nine-digit zip codes of the households that receive food stamps, and that list could be used to define who was eligible for low income assistance.^{51/}

The universal service administrator could also easily match nine-digit zip codes against census blocks to identify customers who live in high-cost service territories. The administrator could record in the database the level of high-cost support appropriate for each nine-digit zip code. The administrator could also use the data base to flag which carrier was receiving high-cost support for any customer, thereby eliminating the possibility that more than one carrier was receiving high-cost support for the same customer. For example, there should be only one high-cost subsidy for a customer that subscribes to MFS's service for voice service, a second line from Bell Atlantic primarily for data needs, and a wireless carrier irrespective of which carrier is designated as the high-cost service provider. Using nine-digit zip codes as the basis for support provides a mechanism for ensuring that a single rather than three high-cost support payments are made to potentially eligible carriers.

^{50/} Recommended Decision at ¶ 412.

^{51/} There may be some instances where more than one household shares the same nine-digit zip code, such as cases where the zip code segment is for a single floor of an apartment building. The nine-digit zip code could be augmented (e.g., adding a letter or another digit) to convert the zip code to uniquely identify households.

Using nine-digit zip codes would also be administratively efficient since carriers typically use nine-digit zip codes on the bills they send to customers because the US Postal Service discounts postage for mailers who use such zip codes. Using nine-digit zip codes to calculate support payments would also be easily auditable since support payments would be keyed to a common element used by all carriers in developing their customer bills.

B. Contributions to Universal Service Should be Based on Total (Interstate and Intrastate) Revenues less Payments to Telecommunications Carriers

The Joint Board recommended that contributions to support universal service should be based on a carrier's gross telecommunications revenues net of payments to other carriers.^{52/} MFS supports this recommendation, but suggests a few modifications and clarifications. First, telecommunications revenues are the revenues that a firm earns by providing telecommunications services, as "telecommunications services" are defined by the Telecommunications Act. Thus, revenues associated with services that use telecommunications but are not telecommunications services, such as enhanced services, would be exempt from this revenue calculation. Similarly, private line revenues or the private provision of telecommunications would be excluded to the extent that they are not provided "for a fee to the public."

Second, total telecommunications revenues -- both interstate and intrastate -- should be included in the calculation. The universal service policies enumerated in the Telecommunications Act are intended to encourage end-users to subscribe to telephone

^{52/} Recommended Decision at ¶ 807.

service in toto, not just interstate or intrastate telecommunications. Universal service is not a jurisdictionally specific or jurisdictionally separable regulatory objective. Also, when customers subscribe to telephone service, that enables them to place and receive both interstate and intrastate calls and access both interstate and intrastate telecommunications services. If just interstate revenues were used to develop universal service contributions, that would benefit carriers whose business was primarily intrastate in nature at the expense of competitors whose revenues were predominately interstate. For example, local exchange carriers with significant local service networks would benefit from federal universal service policies since such policies would subsidize the deployment of these local service networks, especially in high-cost areas. They could obviously use these subsidized local networks to compete against interstate long distance providers, so it would not be competitively neutral to develop the subsidies through a universal service "tax" applied exclusively to interstate revenues. Unseparated revenues should be the basis of universal service contributions.

CONCLUSIONS

MFS applauds and supports many of the conclusions reached by the Joint Board in its Recommended Decision. With the modifications described above, MFS believes that the Commission can implement many of the aspects of the Joint Board's Recommended Decision.

Respectfully submitted,



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Dated: December 19, 1996

ATTACHMENT 1
STATUS OF TELECOMMUNICATIONS MODERNIZATION PLANS